NO. 89-713

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IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1989

MOR-FLO INDUSTRIES, INC. and
AMERICAN APPLIANCE MFG. CORP.,

Petitioners,

v.

STATE INDUSTRIES, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENT

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STATEMENT PURSUANT TO RULE 28.1

State Industries, Inc. is a privately held corporation with a single wholly-owned subsidiary.

TABLE OF AUTHORITIES

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I. STATEMENT OF THE CASE

As adopted in petitioner's brief, petitioners are referred to collectively as "Mor-Flo" and respondent is referred to as "State". Such designations will be followed in this brief.

As stated on page 2 of Mor-Flo's petition, its suggestion for a rehearing in banc was still pending at the time its petition was filed. The suggestion has now been declined pursuant to Order of the Court of Appeals for the Federal Circuit dated November 9, 1989.

Mor-Flo presents two questions for review in its petition. In responding to the two questions, State relies on the provisions of Supreme Court Rule 21.1(a) which reads as follows:

> **Rule 21. The petition for certiorari**
> .1 The petition for writ of certiorari shall contain, in the order here indicated:

> (a) The questions presented for review, expressed in the terms and circumstances of the case but without unnecessary detail. The statement of the questions should be short and concise and should not be argumentative or repetitious. The statement of a question presented will be deemed to comprise every subsidiary question fairly included therein. Only the questions set forth in the petition or fairly included therein will be considered by the Court.

Mor-Flo's statement of the case contains numerous mis-statements of the record which will be dealt with as necessary under the argument heading in this brief.

Finally, it is noted that Mor-Flo makes several statements which are clearly outside the record of this case and are thus improper.

For example, on page 6, Mor-Flo states:

> With prejudgment interest, compounded quarterly, the award totaled $8,884.671 -- which is a life-threatening sum to Mor-Flo.

There isn't a shred of evidence in the record with regard to any threats to Mor-Flo's economic life as a result of the damage award herein.

Also, on page 6, Mor-Flo states:

> Thus, Mor-Flo's use of a plastic sheet to restrain the leakage of form - * * * * * - threatens to destroy Mor-Flo's viability and the jobs of hundreds of employees.

Here again, there is no evidence whatsoever to support this dramatic statement. To the contrary, Mor-Flo, in the district court, argued strenuously that a bond to secure the damage award on appeal was unnecessary because of the financial strength of Mor-Flo.

Finally, in footnote 3., there is a reference to a New York Times report. Such report has never been made of record in this case and thus, the citation and reliance thereon is improper.

II. SUMMARY OF ARGUMENT

A. State's Response to Mor-Flo's Question No. 1

Mor-Flo's Question No. 1 reads as follows:

> 1. Whether, contrary to prior case law and the Congressional scheme, damages in the nature of lost profits on an entire device can be awarded in a patent suit simply on a showing by the patent owner of its market share, where
>
> (a) acceptable products made by non-infringing methods were admittedly available from the patent owner's major competitor, and competitive products were also available from others, and
>
> (b) there is no expert testimony of record on damages and no other evidence that but for the infringer making its sales those sales would have been made by its competitors in proportion to their respective market shares.

The question states that the damages awarded were "contrary to prior case law and the Congressional scheme" and thus the

question is clearly argumentative in violation of Supreme Court Rule 21.1(a).

It is further submitted that Question No. 1 is not "short and concise" and thus is in further violation of the Supreme Court Rule.

Finally, Question No. 1 is without merit because as is explained hereinafter, the damage award was not "based simply" on proof of State's market share.

B. State's Response to Mor-Flo's Question No. 2

Mor-Flo's Question No. 2 is as follows:

> 2. Whether, when a rule of law changing the placement of a burden of proof is adopted for the first time by an appellate court, fairness and due process require that the case be remanded for the affected party to introduce evidence to meet that burden.

This question states that the placement of the burden of proof was changed by the Court of Appeals for the Federal Circuit. This question is without merit since there is nothing in the District Court or the Court of Appeals decisions which makes any reference whatsoever to the placement of the burden of proof. Both courts consistently proceeded on the grounds that, on the issue of damages, the burden of proof was on State. Mor-Flo has invented this issue out of thin air. Question No. 2 therefor is fatally defective.

III. ARGUMENT

Mor-Flo lists four (4) reasons for granting a writ. Mor-Flo's first three reasons all refer to a "market share" theory. It supports its position with a

lengthy challenge to the factual findings of the district court all of which were affirmed by the court of appeals. It summarizes its position with the following statement (page 15):

> There is no room in the Congressional scheme for a judicial detour to a rule that proof of a patent owner's market share is all that it takes to prove actual damages.

To suggest that State's market share was the only evidence relied on by the court of appeals in arriving at the damage award is ludicrous.

The following excerpts from the decision of the court of appeals clearly indicates that there was substantial evidence in addition to "market share" which went into the analysis upon which the award of lost profits was based:

> We start with the presumption that the judgment of the district court is correct, of course, and that the only limit

on its discretion in selecting a remedy is that it be adequate to compensate for the damages suffered as a result of the infringement. (A8)

Here we have multiple competitors and the patent owner contends that all the competitors infringed or sold a far less preferable alternative - fiberglass. The district court made the absence of acceptable substitutes, *Panduit* item (2), a neutral factor by crediting all the other competitors with their market shares as State requested. (A9)

But Mor-Flo should not complain because of anything it received a windfall from this approach. To the extent infringing competitors got credit for sales that should have gone to State, the share of the market against which Mor-Flo's damages might be assessed is reduced. So we think that in these circumstances the presence or absence of acceptable noninfringing alternatives does not matter. (A9-A10) (Emphasis added)

The finding that State has a 40% national market is unassailable, and Mor-Flo does not seriously contend otherwise, or that State did not have the capacity to produce enough

heaters to satisfy at least 40% of Mor-Flo's sales. (A12)

State was a nationally recognized leader in the industry, and it produced specific evidence that it had lost sales to Mor-Flo's infringing heaters on both coasts. For example, a retailer of State's heaters in California testified that he lost sales to a developer for 3,000 heaters annually to Mor-Flo. Another retailer testified that he lost sales to Mor-Flo in Connecticut. There is nothing speculative about these losses. After finding that State had sufficient marketing and manufacturing capabilities to meet its market share of the demand it is eminently reasonable for the district court to infer that State could have sold its market share of Mor-Flo's infringing sales wherever the opportunity occurred. We accordingly agree with the court that it is probable, at least, that State could have met the demand. (A13) (Emphasis added)

For Mor-Flo to now repeatedly state to the Supreme Court that there was no evidence of actual lost sales goes beyond the bounds of legitimate advocacy.

From the foregoing, it is clear that the court of appeals referred to and relied on substantial evidence in addition to "market share" in its affirmance of the award of lost profits by the district court.

Mor-Flo's fourth reason for granting a writ refers again to the "burden of proof" and argues that upon State's proof of "market share", the court of appeals presumed damages and shifted the burden of proof to Mor-Flo. At no place in the decision of the court of appeals did the court make any mention of a presumption of damages or a shifting of the burden of proof. Again, Mor-Flo seriously mischaracterizes the decision of the court of appeals.

Finally, Mor-Flo argues that the court of appeals decision is in conflict

with a decision of the Supreme Court and "all former decisions of the Federal Circuit".

Mor-Flo cites and relies on *Seymour v. McCormick,* 57 U.S (16 How.) 480, 490 (1853). In the *Seymour* case, the patent-in-suit was for an improved seat construction for a reaping machine (the famous McCormick reaper). The patent on the reaping machine itself had expired and only a patent claim on the improved seat was involved. The holding of this case is that the damage award should not be based on the value of the entire machine, but only on the value of the seat. Such holding has no bearing whatsoever on the lost profits issue in the present case.

The *Seymour* case does include certain dicta which is what Mor-Flo is apparently referring to. Such dicta simply states

that damages should not be "speculative", "imaginary", "fanciful" or "assumed as a legal inference". Clearly, there is no basis in the record of this case upon which to conclude that the damage award was either speculative, fanciful or assumed as a legal inference. To the contrary, as stated by the court of appeals (A-13):

> State was a nationally recognized leader in the industry, and it produced specific evidence that it had lost sales to Mor-Flo's infringing heaters on both coasts . . . . . <u>There is nothing speculative about these losses</u>. (Emphasis added)

To characterize the award as to have been "assumed as a legal inference" is incorrect and out of order.

Turning now to prior decisions of the Court of Appeals for the Federal Circuit, the court of appeals decision herein does not overrule or even distinguish any of its previous decisions. To the contrary,

the present case is analogous to and consistent with *Central Soya Co., Inc. v. Geo. A. Hormel Co.*, 723 F.2d 1573, 1578, 220 USPQ 490, 494 (Fed. Cir. 1983). In *Central Soya*, lost profits based on 90% of defendant's infringing sales were awarded to plaintiff. The trial court found that 80% of defendant's sales were to two (2) former customers of plaintiff who urged defendant to produce a breaded pork loin fritter like plaintiff's. Thus, the record showed that there was, for all practical purposes, a two supplier market; namely, plaintiff and defendant. However, there was evidence that there were some other competitors whose operations were not very significant, which is the basis for the 90% allocation instead of a 100% allocation.

In *Central Soya*, just as in the present case, credit was given to other competitors in the field. In *Central Soya*, defendant was given a credit in the amount of 10% to account for sales by the other suppliers in the market place and, in the present case, Mor-Flo was given a credit in the amount of 60% to account for sales of other competitors.

For the reasons stated, there is nothing in the decision of the court of appeals which is in conflict or inconsistent with prior decisions of either the Supreme Court or the Court of Appeals for the Federal Circuit.

IV. CONCLUSION

For the reasons stated, it is respectfully requested that Mor-Flo's petition for a writ of certiorari be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing **BRIEF FOR RESPONDENT** this 27th day of November, 1989, by mailing two copies of the same via first class mail, postage prepaid, to:

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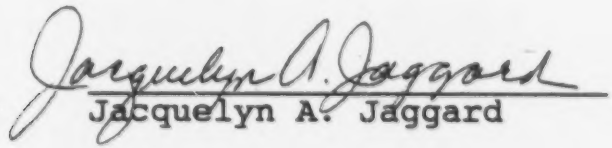

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